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Does Trade Promote Democracy?

By [Daniel T. Griswold](#) | Friday, January 23, 2004

Political scientists have long noted the link between economic openness on one side, and political reform and democracy on the other. To test this compelling thesis, Daniel Griswold compared the political freedom of 123 countries with their overall economic freedom. He found that nations with open economies are far more likely to enjoy full political and civil liberties than those with closed and state-dominated economies.

Increased trade and economic integration promote civil and political freedoms directly by opening a society to new technology, communications and democratic ideas.

Freedom through trade?

Economic liberalization provides a counterweight to governmental power — and creates space for civil society.

The most economically open countries are three times more likely to enjoy full political and civil freedoms as those that are economically closed.

And by promoting faster growth, trade promotes political freedom indirectly by creating an economically independent and political aware middle class.

The evidence from a new study that I authored for the Cato Institute, *Trading Tyranny for Freedom: How Open Markets Till the Soil for Democracy*, finds that those assertions rest on solid ground — in theory as

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Check out Griswold's complete trade policy analysis.

[Freedom House](#)

well as the real world. [Click here](#) for a quick overview of how the study was conducted.

A non-profit organization dedicated to expanding political and economic freedom.

[The Fraser Institute](#)

Read more about this organization's research on competitive markets.

A striking correlation

The connection becomes evident when countries are grouped by quintiles — or fifths — according to their economic openness.

Of the 25 rated countries in the top quintile of economic openness, 21 are rated "Free" by Freedom House — and only one is rated "Not Free."

Strange bedfellows

In contrast, among the quintile of countries that are the least open economically, only seven are rated "Free" and nine are rated "Not Free."

In other words, the most economically open countries are three times more likely to enjoy full political and civil freedoms as those that are economically closed. Those that are closed are nine times more likely to completely suppress civil and political freedoms as those that are open.

Despite dramatic progress, Mexico, Poland and South Africa still have a ways to go before consolidating their political and economic gains.

The chart below produces its share of strange bedfellows. Despite their ideological and diplomatic differences, the United States and France occupy almost exactly the same real estate in terms of political freedom and economic openness.

Assessing the data

Both are free politically — and yet both still carry their share of protectionist baggage, landing them in the second rather than the "Most Open" quintile.

Among the other countries in the second quintile that are still only Partly Free in their politics are three Muslim states — Indonesia, Bahrain, and Malaysia — joined by Nicaragua and Uganda.

Trading Freedoms?

The following countries are grouped according to economic openness (first quintile is "most open"). Within each quintile, countries are grouped according to the degree of political and civil freedom.

Not Free	Partly Free	Free
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5th Quintile (Least Open)

Burundi	Albania	Bahamas
Pakistan	Madagascar	Barbados
Chad	Tanzania	Belize
Congo	Bangladesh	Cyprus
Haiti	Nepal	Benin
Iran	Sierra Leone	India
Rwanda	Gabon	Senegal
Zimbabwe	Cent. African Rep.	
Burma	Morocco	

4th Quintile

Algeria	Argentina	Malta
Togo	Fiji	Slovenia
Tunisia	Sri Lanka	Dominican Rep.
Cameron	Colombia	Romania
Côte d'Ivoire	Guatemala	Brazil
Egypt	Malawi	Mali
Syria	Niger	Namibia
	Guinea-Bissau	Papua New Guinea
	Russia	

3rd Quintile

China	Ecuador	Iceland
	Honduras	Uruguay
	Trinidad & Tobago	Japan
	Paraguay	Mauritius
	Turkey	POLAND
	Venezuela	SOUTH AFRICA
	Kenya	Bulgaria
	Ukraine	MEXICO
	Kuwait	Bolivia
	Nigeria	Croatia
	Congo (Brazz.)	Jamaica
	Jordan	Peru

2nd Quintile

Oman	NICARAGUA	Australia
	INDONESIA	France
	BAHRAIN	Norway
	MALAYSIA	Spain
	UGANDA	UNITED STATES
	Sierra Leone	Costa Rica
	Gabon	Greece
	Cent. African Rep.	Latvia
	Morocco	Lithuania
		Panama
		Botswana
		Israel
		South Korea
		Taiwan
		El Salvador
		Ghana
		Philippines
		Thailand

1st Quintile (Most Open)

UAE	Hong Kong	Austria
	Zambia	Belgium
	Singapore	Canada
		Denmark
		Finland
		Germany
		Ireland
		Italy
		Luxembourg
		Netherlands
		New Zealand
		Portugal
		Sweden
		Switzerland
		United Kingdom
		Chile
		CZECH REPUBLIC
		ESTONIA
		HUNGARY
		SLOVAKIA
		Guyana

Not Free**Partly Free****Free**

Data Source: Freedom House. Copyright © 2004.

Middle of the pack

Other interesting groupings are those countries that are free politically but in the middle quintile in openness: Despite dramatic progress, Mexico, Poland,

and South Africa still have a ways to go before consolidating their political and economic gains.

Members of the European Union represent more than half of the countries belonging to the top club of

Members of the European Union represent more than half of the countries belonging to the top club of nations that are

nations that are free politically and also the most open economically.

free politically and also the most open economically, realizing the post-war vision of a democratic Europe bound together by commerce.

Joining them are four of the most EU-ready countries of central and eastern Europe — the Czech Republic, Estonia, Hungary and Slovak Republic — but also two South American countries: Chile and Guyana.

Drawing conclusions

Oman and the United Arab Emirates are two oil-rich Gulf States that have liberalized and opened their economies, but not (yet) their political systems.

A key lesson from the cross-country data is that governments that grant their citizens a large measure of freedom to engage in international commerce find it dauntingly difficult to simultaneously deprive them of political and civil liberties.

Doubtful protection

A corollary is that governments that "protect" their citizens behind tariff walls and other barriers to international commerce find it much easier to deny those same liberties.

Another lesson from the study is this: When debating trade policy, governments and legislatures — especially in the developed countries, such as the United States or Europe — cannot ignore the broader foreign-policy implications of trade.

By opening markets at home and encouraging freer trade abroad, they not only promote economic growth — but also a more humane and democratic world.

Free trade and globalization do not guarantee democracy and respect for human rights, but they do provide a more favorable trade wind for achieving these goals.

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Voting for tyranny?

Conversely, politicians who consistently vote against more open markets at home and market-opening trade agreements with other nations need to realize the effects of their actions.

They are, in effect, voting to keep millions of people locked within the walls of tyranny — and millions more trapped in a partly free netherworld of half-rights, half-freedoms and half-democracy.

Comparing Economic and Political Freedom

A great deal of research exists on the economic impact of trade, but much less on its political impact. Do the assertions that expanding trade and international commerce promotes democracy and human rights make sense in theory? And do they stand up to empirical scrutiny?

To test the thesis, my study compared two comprehensive and established databases. One measures the political and civil freedom of countries, the other their economic freedom, including the freedom to exchange with foreigners.

The first database is the [Freedom in the World](#) survey compiled annually by Freedom House, the New York-based human rights group.

This survey rates virtually every country in the world on civil freedom — the freedom to worship, speak, associate and "enjoy personal autonomy without interference from the state"-and political freedom-the ability to participate freely in the political process.

Based on a combined score, Freedom House divides countries into three categories: Free, Partly Free and Not Free. The second database is the [Economic Freedom of the World](#) report compiled every one or two years by the Fraser Institute, a free-market think tank in Vancouver, Canada.

It measures economic freedom both within a country and key measures of economic openness such as taxes on international trade and non-tariff regulatory trade barriers, the size of the trade sector, official versus black market exchange rates and restrictions on capital markets.

When I combined the two sets of measurements, I found a striking correlation between economic openness and political and civil freedom across the 123 countries rated in both surveys.

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